

CITY OF HAYWARD
AGENDA REPORT

AGENDA DATE 03/28/06

AGENDA ITEM 5

WORK SESSION ITEM _____

TO: Mayor and City Council
FROM: City Manager
SUBJECT: Approval of Lease Financing to Procure Computer Equipment

RECOMMENDATION:

It is recommended that City Council adopt the attached resolution authorizing the City Manager to execute an Equipment Lease/Purchase Agreement and other documents necessary to procure computer equipment.

BACKGROUND:

In February of 2001 Council authorized the purchase of an upgraded Unisys computer using lease/purchase financing. The Unisys computer is the workhorse for the City's Financial Management Information System (FMIS). FMIS encompasses all accounting applications including general ledger, utility billing, payroll, accounts payable, accounts receivable and fixed asset accounting. In addition to accounting functions, FMIS supports the City's budget application for both budget preparation and budget monitoring.

It was anticipated that this computer would serve the City for up to five years, which has been the case. The lease/purchase obligation was paid off in 2004. In early 2005, Unisys announced that only limited hardware and software support would be available for the model currently owned by the City. In addition to reduced support for this particular model the City will also face increased maintenance and license fees after July 1, 2007. These fee increases are part of the Company's pricing strategy to move customers away from this particular computer. Unisys offers a slightly more powerful model of this series of computer which is fully supported and less expensive than continuing with the current model. The City could upgrade to the new model with no disruption to service.

Presently, staff is not recommending that the City move to a new computer system, which is an alternative that could be considered at this juncture. Moving to a new system would require a substantial commitment from the City of both dollars and staff time. Given the fact that the City's current system is highly customized, efficient, reliable and meets users needs, staff does not believe that such a move is justified. Obviously, at some point the City may wish to consider a new system, however, it is not necessary at this time. Consequently, in order to obtain full hardware and software support, while retaining the City's present computing capability and realize cost savings staff is recommending the lease purchase of an upgraded Unisys computer.

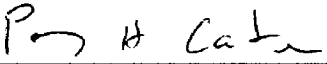
The projected cost to operate the current mainframe computer over the next five years is approximately \$606,000 (license and maintenance fees) or about \$121,000 per year.

As noted above the software and hardware support that the City will be able to obtain will be limited. If an upgraded computer is lease/purchased then the total cost over five years is estimated at \$550,000 (lease/purchase payment includes hardware, license and maintenance fees) or about \$110,000 per year. The total savings over the five year period is \$55,000. If Council authorizes execution of a lease/purchase agreement, staff will competitively bid the lease to obtain the best interest rate. Staff estimates that the interest rate will be in the range of 4% to 5% based on recent transactions. There will be no budget impact to the 2005-06 budget. This is due to the fact that the savings realized from the licensing and support budget for the existing mainframe computer can be applied to the new computer lease. Consequently, it will not be necessary to amend the 2005-06 budget to fund the lease/purchase agreement.

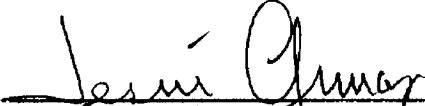
Prepared by:


Clancy Priest, Technology Services Director

Recommended by:


Perry H. Carter, Acting Assistant City Manager

Approved by:


Jesús Armas, City Manager

RESOLUTION NO. 06-

**RESOLUTION AUTHORIZING EXECUTION OF
EQUIPMENT LEASE/PURCHASE AGREEMENT AND
OTHER DOCUMENTS NECESSARY TO PROCURE
COMPUTER EQUIPMENT**

IN COUNCIL, HAYWARD, CALIFORNIA _____, 2006

ABSENT: COUNCIL MEMBERS:

APPROVED AS TO FORM:

City Attorney of the City of Hayward